

**FARS**

**West Virginia Water Development Authority**

**Financial Statements With Supplementary Information**

**Year Ended June 30, 2008**

**WITH INDEPENDENT AUDITORS' REPORT**

# West Virginia Water Development Authority

Financial Statements  
Year Ended June 30, 2008

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
West Virginia Water Development Authority  
Charleston, West Virginia

We have audited the accompanying statement of net assets of the West Virginia Water Development Authority (the Authority), a component unit of the State of West Virginia, as of and for the year ended June 30, 2008, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Virginia Water Development Authority as of June 30, 2008, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority. The accompanying schedules on pages 29 to 31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Hibbons & Kawash*

October 13, 2008

# **MANAGEMENT’S DISCUSSION AND ANALYSIS**

## **INTRODUCTION**

The West Virginia Water Development Authority (the “Authority”) was established in 1972 by the West Virginia Legislature as a governmental instrumentality of the State of West Virginia (the “State”) and a body corporate and is considered a component unit of the State for financial reporting purposes. The Authority commenced operations in 1974 and is authorized to serve as a revenue bond bank that provides financial assistance to municipalities, public service districts and other political subdivisions to meet the requirements of State and federal water pollution control and safe drinking water laws, thereby helping to protect the health of the State’s citizens, improving drinking water quality, upgrading infrastructure to attract economic development and protecting the environment. The Authority operates under the supervision of the West Virginia Water Development Board, which is comprised of seven members. The Authority, which also serves as fiduciary for three other programs which are audited separately, has a staff of six and utilizes professional services to supplement its staff as needed. The Authority is self-supporting and does not receive State appropriations for operating expenses or bond programs.

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Generally, the Authority’s programs are funded with proceeds from water development bonds issued by the Authority. Moneys in the various programs are loaned to municipalities, public service districts and other political subdivisions through the purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the systems or other permanent financing. Because the Authority’s bonds are considered a moral obligation of the State, the aggregate principal amount of bonds and/or notes issued by the Authority may not exceed \$500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of \$440 million, the Legislature must pass a resolution authorizing this action. The Authority’s long-term planning is accomplished within the confines of its authorized borrowing limit. Additionally, due to federal law changes regarding pool financing, the Authority has used and will use other available resources to fund loans and then issue bonds when a significant identifiable need arises.

This discussion and analysis of the Authority’s financial activities for the year ended June 30, 2008, is designed to assist the reader in focusing on significant financial issues and activities of the Authority and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Authority’s financial statements, which begin on page 9.

## **USING THIS REPORT**

This report consists of a series of financial statements. The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets report the Authority’s net assets and changes in them. The Authority’s net assets – the difference between assets and liabilities – is one way to measure the Authority’s financial health or financial position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL HIGHLIGHTS

- Total assets of the Authority decreased \$1.58 million or .53%. There was a corresponding decrease in total liabilities of \$5.3 million or 2.17%. Total net assets increased \$3.7 million or 7.26%. This increase includes the current year change in net assets of \$3.48 million and the effect of a restatement of beginning net assets of \$254 thousand.
- Total revenues had a net increase of \$317 thousand. Most of the increase was in interest and investment revenue. Operating revenues, which remained about the same as the prior year, consist primarily of charges for services for both the current and prior years.
- Total expenses increased \$449 thousand. This was the combined result of a \$323 thousand increase in interest expense and a \$126 thousand increase in operating expenses.

### THE AUTHORITY AS A WHOLE

The analysis below focuses on Net Assets (Table 1) and Changes in Net Assets (Table 2):

	<b>Table 1</b>		
	<b>Net Assets</b>		
	2008	2007	Increase (Decrease)
<b>Assets:</b>			
Current assets	\$26,865,685	\$24,143,412	\$ 2,722,273
Noncurrent assets	<u>268,047,388</u>	<u>272,351,660</u>	<u>(4,304,272)</u>
Total assets	294,913,073	296,495,072	(1,581,999)
<b>Liabilities:</b>			
Current liabilities	8,537,201	8,201,375	335,826
Long-term debt outstanding	<u>231,290,222</u>	<u>236,937,030</u>	<u>(5,646,808)</u>
Total liabilities	239,827,423	245,138,405	(5,310,982)
<b>Net Assets:</b>			
Invested in capital assets	764,819	742,758	22,061
Restricted	26,150,178	26,128,267	21,911
Unrestricted	<u>28,170,653</u>	<u>24,485,642</u>	<u>3,685,011</u>
Total net assets	<u>\$55,085,650</u>	<u>\$51,356,667</u>	<u>\$ 3,728,983</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Table 2**  
**Changes in Net Assets**

	2008	2007	Increase (Decrease)
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 15,818,935	\$ 15,827,635	\$ (8,700)
Other	<u>62,713</u>	<u>1,800</u>	<u>60,913</u>
Total operating revenues	15,881,648	15,829,435	52,213
Nonoperating revenues:			
Interest and investment revenue, net of arbitrage	1,858,048	1,600,747	257,301
Other	<u>7,597</u>	<u>-</u>	<u>7,597</u>
Total nonoperating revenues	<u>1,865,645</u>	<u>1,600,747</u>	<u>264,898</u>
Total revenues	17,747,293	17,430,182	317,111
<b>Expenses:</b>			
Operating expenses	844,906	718,843	126,063
Nonoperating expenses:			
Interest expense	<u>13,427,086</u>	<u>13,103,609</u>	<u>323,477</u>
Total expenses	14,271,992	13,822,452	449,540
<b>Change in net assets</b>	3,475,301	3,607,730	(132,429)
<b>Beginning net assets, as restated*</b>	<u>51,610,349</u>	<u>47,748,937</u>	<u>3,861,412</u>
<b>Ending net assets</b>	<u>\$ 55,085,650</u>	<u>\$ 51,356,667</u>	<u>\$ 3,728,983</u>

\* Restated for \$253,682 adjustment to other postemployment benefit liability at the beginning of the year.

**Total assets** decreased \$1.58 million or .53%. Decreases to assets were the result of the use of assets to pay interest expense on bonds payable of \$12.3 million, scheduled principal payments on bonds payable of \$6.3 million and general and administrative expenses of \$628 thousand. The combined decrease to assets of \$19.3 million was offset by revenues from interest on loans reflected in the financial statements as "charges for services" of \$15.8 million and interest on investments of \$1.86 million. During the year, the Authority closed eight wastewater or water project related loans totalling \$2.6 million, of which \$1.78 million was disbursed for those projects during the current year from unrestricted funds available to the Authority.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Total liabilities** decreased about \$5.3 million. Most of the decrease was in revenue bonds payable, which are presented on the balance sheet net of unamortized premiums, discounts, issue costs and deferred losses on advance refundings. If bonds payable net of these amounts as of June 30 of the prior year and as of June 30 of the current year are compared, the decrease in bonds payable was \$5 million. If the same comparison is made before netting these amounts against bonds payable, the decrease in bonds payable was \$6.33 million, which was the result of scheduled principal payments of bonds payable.

**Unrestricted net assets** increased \$3.7 million, primarily explained as the combined result of \$2.7 million net income in unrestricted accounts, a \$254 thousand decrease in liabilities payable from current assets as the result of a change in accounting principle, a \$579 thousand transfer from the restricted portion of supplemental revenue bonds receivable to current assets, and a \$567 thousand transfer from the restricted portion of revenue bonds receivable in the four loan programs to current assets. Offsetting those increases was a net decrease in interest receivable in the four loan programs of \$64 thousand, and an increase in liabilities payable from current assets of the four loan programs of \$325 thousand.

**Restricted net assets** remained about the same. This was primarily the combined result of \$756 thousand net income in the four loan programs offset by a \$579 thousand transfer from the restricted portion of supplemental revenue bonds receivable to current assets and by approximately the same amount of transfers of assets and liabilities to unrestricted accounts in the four loan programs as discussed above.

**Charges for services** remained about the same since there were no significant changes in any of the portfolios of the four loan programs. Although eight loans totaling \$2.6 million in the Supplemental Fund were closed during the current year and \$1.78 million of those loans was disbursed and accrued interest at rates between 3% and 5% during the current year, \$1.66 million of those loans was disbursed during the last six months of the year and only accrued interest for six months or less.

**Interest and investment revenue, net of arbitrage** increased \$257 thousand, even though interest rates on the Authority's money market accounts decreased during the year. However, because interest and investment revenue is presented net of the adjustment to the liability for arbitrage rebate and because the adjustment to the liability was less for the current year than the prior year, there was an increase in the net amount of interest and investment revenue. If the adjustment to the liability for arbitrage is not netted against interest and investment earnings for the prior and current year, interest and investment earnings actually decreased about \$47 thousand during the current year, which is consistent with the decrease in interest rates.

## DEBT ADMINISTRATION

As a financing entity, the business of the Authority is debt issuance and administration, including servicing. By statute, the maximum amount of bonds the Authority is authorized to have outstanding includes debt issued for the Authority and by the Authority on behalf of the West Virginia Infrastructure and Jobs Development Council. While the redemption of bonds is economically prudent because of the resulting debt service savings, any reduction in the liability for long-term debt enables the Authority to manage debt capacity for future needs as well as for new programs. The Authority, therefore, continues to monitor its long-term outstanding debt for prepayment and refunding opportunities for debt service savings. At year end, the Authority had \$254.7 million in revenue and refunding bonds outstanding versus \$261 million in the prior year, a decrease of 2.4%, as shown in Table 3 on the next page.

# MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

## DEBT ADMINISTRATION (Continued)

**Table 3**  
**Outstanding Debt at Year End**  
**(in Millions)**

	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ 85.9	\$ 87.5
Refunding bonds	<u>168.8</u>	<u>173.5</u>
Total	<u>\$ 254.7</u>	<u>\$ 261.0</u>

On January 31, 2008, Standard & Poor’s Ratings Group (“Standard & Poor’s”) downgraded from AAA to AA the Financial Guaranty Insurance Company, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program II) 2005 Series A-II and B-II and 2006 Series A-II. As required, on February 20, 2008, the Authority submitted written Notices of Material Event Filing (Rating Agency Change) to the Municipal Securities Rulemaking Board and electronic notices to the Nationally Recognized Municipal Securities Information Repositories through Disclosure USA.

On June 5, 2008, Standard & Poor’s downgraded from AAA to AA the Ambac Financial Group, the bond insurer for the West Virginia Water Development Authority, Water Development Revenue Refunding Bonds (Loan Program) 2002 Series A and 2003 Series A-I; Water Development Revenue Bonds (Loan Program II) 2003 Series A; Water Development Revenue Refunding Bonds (Loan Program II) 2003 Series B, 2003 Series C and 2003 Series D; Water Development Revenue Bonds (Loan Program III) 2000 Series A and 2000 Series B; and Water Development Revenue Bonds (Loan Program IV) 2005 Series B-IV. As required, on June 26, 2008, the Authority submitted written Notices of Material Event Filing (Rating Agency Change) to the Municipal Securities Rulemaking Board and electronic notices to the Nationally Recognized Municipal Securities Information Repositories through Disclosure USA.

The downgrade of the bond insurers did not result in any event of default and does not affect the fixed interest rates the Authority pays on its bonds. Any downward revision or withdrawal of any such ratings could have an adverse effect on the market price of the Authority’s bonds on the secondary market. The Authority’s outstanding bonds were originally issued with a rating of AAA by Standard & Poor’s on the understanding that the standard insurance policies purchased by the Authority guaranteed the timely payment of principal of and interest on the bonds. There is no assurance that a particular rating will continue for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of Standard & Poor’s, circumstances so warrant.

The Authority’s underlying rating of A- from Standard & Poor’s reflects the State’s moral obligation, which is one full category below the State’s AA- rating. Ultimately, rating strength is provided by the Authority’s pledge to maintain a debt service reserve fund equal to the maximum annual debt service on all outstanding bonds and servicing of underlying loans. If the amount in the reserve funds falls below the required maximum annual debt service level, the Governor, on notification by the Authority, may request the State’s Legislature to appropriate the necessary funds to replenish the reserve to its required level. The State’s Legislature, however, is not legally required to make such appropriation.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

### **DEBT ADMINISTRATION (Continued)**

The Authority, as well as its underwriters and bond counsel, continues to monitor the status of its bond insurers and is considering options for issuance of future bonds without an insurance policy.

### **ECONOMIC FACTORS THAT MAY AFFECT THE AUTHORITY**

There are several unknown factors that may affect the Authority, including changes in existing federal or State legislation, additional responsibilities for new environmental or drinking water demands, and market conditions that could affect the viability of future revenue bond issues and impact investment earnings. Additionally, the Authority invests funds not required for immediate disbursement as permitted by statute, its bond resolutions and its “Investment Guidelines, Procedures and Controls.” The Authority’s investment income was affected during the current year by the decline in short-term interest rates, which continue to remain low.

### **SUBSEQUENT EVENT**

Between August 20, 2008 and August 28, 2008, the custodian of the collateral securing one of the Authority’s repurchase agreements allowed part of the collateral consisting of the proceeds of called United States Treasury Bonds (“Treasuries”) of \$1,325,000 and accrued interest on those bonds of \$79,500 to be withdrawn by the investment provider. The security provided by the investment provider to replace the Treasuries consisted of a Federal Home Loan Mortgage Real Estate Mortgage Investment Conduit which is backed by the full faith and credit of the United States but is not an eligible security in accordance with the investment contract. Additionally, even though the market value of the remaining collateral exceeds the face amount of the investment, or purchase price, the collateral value does not meet the 125% margin required by the terms of the investment contract.

### **CONTACTING THE AUTHORITY’S MANAGEMENT**

This financial report is designed to provide a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives as well as its ability to pay debt service. If you have questions about this report or need additional information, contact the Executive Director or Secretary/Treasurer, West Virginia Water Development Authority, 180 Association Drive, Charleston, West Virginia 25311, call 304-558-3612, extension 108; or visit the Authority’s website ([www.wvwda.org](http://www.wvwda.org)).

# West Virginia Water Development Authority

## Statement of Net Assets June 30, 2008

### ASSETS

Current assets:	
Cash and cash equivalents	\$ 16,721,645
Receivables:	
Revenue bonds, net of unamortized discount of \$58,018	5,565,561
Supplemental revenue bonds	579,074
Interest	3,868,393
Administrative fees	2,011
Due from other agencies	<u>129,001</u>
Total current assets	<u>26,865,685</u>
Noncurrent assets:	
Receivables:	
Revenue bonds	8,675,459
Loans receivable, net of allowances	-
Investments	1,200,000
Restricted assets:	
Cash and cash equivalents	2,016,542
Investments	15,626,056
Receivables, net:	
Revenue bonds, net of unamortized discount of \$1,331,726	229,791,204
Supplemental revenue bonds	9,973,308
Capital assets, net	<u>764,819</u>
Total noncurrent assets	<u>268,047,388</u>
Total assets	<u>294,913,073</u>

### LIABILITIES

Current liabilities:	
Accounts payable	19,219
Other postemployment benefits	3,335
Current portion of revenue bonds payable, net of unamortized premium of \$144,196, discounts and issue costs of \$185,686 and deferred losses on refundings of \$740,935	5,902,575
Accrued interest payable	<u>2,612,072</u>
Total current liabilities	<u>8,537,201</u>
Noncurrent liabilities:	
Compensated absences	33,290
Liabilities payable from restricted assets:	
Arbitrage rebate payable	155,783
Noncurrent portion of revenue bonds payable, net of unamortized premium of \$3,497,101, discounts and issue costs of \$4,612,730 and deferred losses on refundings of \$15,813,222	<u>231,101,149</u>
Total noncurrent liabilities	<u>231,290,222</u>
Total liabilities	<u>239,827,423</u>
<b>NET ASSETS</b>	
Restricted	26,150,178
Unrestricted	28,170,653
Invested in capital assets	<u>764,819</u>
Total net assets	<u>\$ 55,085,650</u>

See accompanying notes to financial statements.

# West Virginia Water Development Authority

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## Statement of Revenues, Expenses, and Changes In Fund Net Assets Year Ended June 30, 2008

Operating revenues:	
Charges for services	\$15,818,935
Miscellaneous	24,838
Recovery of uncollectible loans and service charges	<u>37,875</u>
Total operating revenues	<u>15,881,648</u>
Operating expenses:	
Depreciation and amortization	225,117
General and administrative	<u>619,789</u>
Total operating expenses	<u>844,906</u>
Operating income	<u>15,036,742</u>
Nonoperating revenues (expenses):	
Interest and investment revenue, net of arbitrage	1,858,048
Other nonoperating revenues	7,597
Interest expense	<u>(13,427,086)</u>
Total nonoperating revenues (expenses)	<u>(11,561,441)</u>
Change in net assets	3,475,301
Total net assets, beginning of year, as previously reported	51,356,667
Cumulative effect of a change in accounting principle	<u>253,682</u>
Total net assets, beginning of the year, as restated	<u>51,610,349</u>
Total net assets, end of year	<u>\$ 55,085,650</u>

See accompanying notes to financial statements.

# West Virginia Water Development Authority

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## Statement of Cash Flows Year Ended June 30, 2008

<b>Cash flows from operating activities:</b>	
Receipts of principal on bonds receivable	\$ 5,121,977
Receipts of interest on bonds receivable	15,805,321
Receipts of administrative fees on bonds receivable	24,902
Receipts of uncollectible loans and service charges	37,875
Receipts of reimbursements from other agencies	480,343
Disbursements of loans	(1,983,201)
Disbursements for general and administrative expense	(345,702)
Disbursements to employees	(282,482)
Disbursements on behalf of other agencies	(482,830)
Net cash provided by operating activities	<u>18,376,203</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	<u>(61,492)</u>
Net cash used for capital and related financing activities	<u>(61,492)</u>
<b>Cash flows from noncapital financing activities:</b>	
Principal paid on revenue and refunding bonds	(6,330,000)
Interest paid on revenue and refunding bonds	(12,326,407)
PEIA reserve transfer	<u>7,597</u>
Net cash used for noncapital financing activities	<u>(18,648,810)</u>
<b>Cash flows from investing activities:</b>	
Investment earnings	<u>1,906,067</u>
Net cash provided by investing activities	<u>1,906,067</u>
Net increase in cash and cash equivalents	1,571,968
Cash and cash equivalents, beginning of year	<u>17,166,219</u>
Cash and cash equivalents, end of year	<u>\$ 18,738,187</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 15,036,742
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>	
Depreciation expense	39,431
Amortization expense	185,686
<b>Changes in assets and liabilities:</b>	
Due from other agencies	(2,487)
Supplemental revenue bonds receivable	580,701
Revenue bonds receivable	2,500,059
Accrued interest receivable	44,402
Administrative fees receivable	64
Accounts payable	7,344
Other postemployment benefits liability	3,335
Compensated absences	(19,074)
Net cash provided by operating activities	<u>\$ 18,376,203</u>

See accompanying notes to financial statements.

# West Virginia Water Development Authority

## Notes to Financial Statements

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### (1) Reporting Entity

The West Virginia Water Development Authority (the “Authority”) is a governmental instrumentality of the State of West Virginia (the “State”) and a body corporate, created under the provisions of Chapter 22C, Article 1 of the Code of West Virginia, 1931, as amended, and known as the West Virginia Water Development Act. The Authority’s mission is to provide West Virginia communities effective financial assistance for development of wastewater, water and economic infrastructure that will improve health, protect the streams of the State, improve drinking water quality and encourage economic growth. This is accomplished by administering and managing the West Virginia Water Development Revenue Bond Programs, serving as the State-designated fiduciary of the West Virginia Infrastructure Fund, managing the Bureau for Public Health’s Drinking Water Treatment Revolving Fund, administering the Department of Environmental Protection’s Clean Water State Revolving Fund, and being an active member of the West Virginia Infrastructure and Jobs Development Council.

The Authority’s Water Development Revenue Bond Programs are funded with proceeds of water development bonds issued by the Authority. Moneys in the programs are loaned to municipalities, public service districts and other political subdivisions through the purchase by the Authority of revenue bonds or notes issued by those entities, who repay the loans from the revenues of the systems or other permanent financing.

The Authority receives no appropriations from the State; however, as the State is able to impose its will over the Authority, the Authority is considered a component unit of the State.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America (“GAAP”) for governments. GAAP defines component units as those entities which are legally separate governmental organizations for which the appointed members of the Authority are financially accountable or other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority’s financial statements to be misleading. Because no such organizations exist which meet the above criteria, the Authority has no component units.

### (2) Significant Accounting Policies

#### Basis of Presentation

The Authority is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with GAAP, the financial statements are prepared on the accrual basis of accounting, using the flow of economic resources measurement focus. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. As permitted by Governmental Accounting Standards Board (“GASB”) Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(2) Significant Accounting Policies (Continued)

that Use Proprietary Fund Accounting,” the Authority has elected not to adopt Financial Accounting Standards Board (“FASB”) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

The Authority is included in the State’s basic financial statements as a discretely presented component unit proprietary fund and business type activity using the accrual basis of accounting. There may be differences between the amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

Cash Equivalents

Cash equivalents include investments with original maturities of less than ninety days.

Allowance for Uncollectible Loans and Service Charges

The Authority established an allowance for uncollectible loans and service charges from the 1974 Revolving Loan Fund Program based on the estimated age of revolving loans and service charges and their anticipated collectibility. The Authority has not established an allowance for uncollectible loans in the Water Development Revenue Bond Programs because of remedies available to it in the loan agreements that exist between the Authority and the various entities.

Investments

Investments are carried at fair market values which are based upon quoted market prices. Gains and losses are reported as a component of investment income.

Restricted Assets

Proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by bond covenants.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated economic useful life. The table below details the capital asset categories and related economic useful lives:

Furniture and equipment	5 years
Building	40 years
Building improvements	10 years
Intangible assets	5 years

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(2) Significant Accounting Policies (Continued)

Compensated Absences

In accordance with State policy, the Authority permits employees to accumulate earned but unused vacation and sick pay benefits. A liability for vacation pay is accrued when earned. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, a liability is accrued through the Authority's participation in the State's multiple employer cost-sharing post-employment benefit plan that represents billed and unpaid charges from that plan in accordance with GASB Statement No. 45.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are amortized using the straight-line method over the varying terms of the bonds issued. The straight-line method is not in accordance with GAAP, but the difference in amortization using the straight-line method, versus the effective interest method which is in accordance with GAAP, is not material.

Arbitrage Rebate Payable

The United States Internal Revenue Code of 1986, as amended (the "Code"), prescribes restrictions applicable to the Authority as issuer of Water Development Revenue and Refunding Bonds. Among those include restrictions on earnings on the bond proceeds. The Code requires payment to the federal government of investment earnings on certain bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the yield on the bonds, and a liability for that amount has been recorded at June 30, 2008.

(3) Change in Accounting Principle and Restatement of Net Assets

Beginning July 1, 2007, the Authority adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which provides guidance on other postemployment benefit reporting by employers, effectively revising the provisions of GASB Statement No. 16. As a result of adopting the new standard, the Authority has restated net assets as of July 1, 2007, to account for the cumulative effect of this change in accounting principle related to accounting for other postemployment benefits. The effect of the restatement was an increase to beginning net assets of \$253,682.

(4) Deposit and Investment Risk Disclosures

The General Revenue Bond Resolutions and the Authority's investment guidelines authorize the Authority to invest all bond proceeds in obligations of the United States and certain of its agencies, certificates of deposit, public housing bonds, direct and general obligations of states which are rated in either of the two highest categories by Standard & Poor's Ratings Services, advance-refunded municipal bonds and repurchase agreements relating to certain securities. Investments are managed by the financial institutions serving as trustees for the Authority.

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

(4) Deposit and Investment Risk Disclosures (Continued)

Interest Rate Risk

As of June 30, 2008, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Repurchase Agreements	\$ 15,626,056	\$ -	\$ 9,743,994	\$ 3,436,520	\$ 2,445,542
U.S. Treasury	1,200,000	-	-	-	1,200,000
Money Markets	18,576,112	18,576,112	-	-	-
	<u>\$ 35,402,168</u>	<u>\$ 18,576,112</u>	<u>\$ 9,743,994</u>	<u>\$ 3,436,520</u>	<u>\$ 3,645,542</u>

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment guidelines limit the maturities of investments not matched to a specific debt or obligation of the Authority to five years or less, unless otherwise approved by the Board.

Investments matched to obligations of the Authority would include investments of capital and/or special reserve funds for each of the Authority's outstanding bond issues in Loan Programs I, II and III. The General Revenue Bond Resolutions for Loan Programs I, II, III and IV require that, while the bonds are outstanding, there be on deposit in the capital and/or special reserve funds an amount equal to the maximum amount of principal installments and interest coming due during the current or any succeeding year. The General Revenue Bond Resolution for Loan Program IV permits this requirement to be met, and it has been met, with the deposit of a Reserve Fund Credit Facility into the reserve fund. There are, therefore, no investments of capital and/or special reserve funds for Loan Program IV. The Authority has both the intent and the ability to hold long-term securities until final maturity and thus is limited in its exposure to interest rate risk on these long-term obligations.

Concentration of Credit Risk

As of June 30, 2008, the Authority had investment balances with the following issuers which are greater than or equal to 5 percent of the investment balance:

Type	Issuer	Percentage of Investments
Repurchase Agreements	Ambac Capital Funding, Inc.	7%
	Bayerische Landesbank	21%
	Citigroup Global Markets, Inc.	7%
	Lehman Government Securities, Inc.	7%
Money Markets	Federated Prime Cash Obligations	52%

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(4) Deposit and Investment Risk Disclosures (Continued)

The Authority's investment guidelines manage concentration of credit risk by limiting its investment activity so that at any time its total investment portfolio will not exceed the percentage limits as to the permitted investments as shown on the next page:

<u>Permitted Investments</u>	<u>Maximum % of Portfolio</u>
(a) Direct Federal Obligations	100%
(b) Federally Guaranteed Obligations	100%
(c) Federal Agency Obligations	90%
(d) Money Markets	90%
(e) Repurchase Agreements/Investment Contracts	90%
(f) Time Deposits/Certificates of Deposit	90%
(g) Demand Deposits	30%
(h) Corporate Obligations	15%
(i) Other State/Local Obligations	15%
(j) West Virginia Obligations	15%
(k) Housing Bonds - Secured by Annual Contributions Contracts	5%

With the exception of money markets, repurchase agreements/investment contracts, time deposits/certificates of deposit and demand deposits, investments that comprise more than 15% of the investment portfolio must be direct federal, federal agency or federally guaranteed obligations.

All other investments listed above that comprise more than 15% of the investment portfolio must be either provided by an institution with a rating of at least "A/A" by Moody's and/or Standard and Poor's, invested in a money market fund rated "AAAm" or "AAAm-G" or better by Standard and Poor's, secured by obligations of the United States, or not exceed the insurance limits established by the FDIC unless adequate collateral is provided.

Credit Risk

The following table provides information on the credit ratings of the Authority's short-term investments:

<u>Security Type</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>	<u>Fair Value</u>
Money Markets	AAA	Aaa	AAAm	<u>\$ 18,576,112</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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### (4) Deposit and Investment Risk Disclosures (Continued)

Additionally, of the Authority's investments in repurchase agreements, the underlying securities consist of \$3,980,022 in United States Treasury Bonds, \$1,236,830 in federal agency obligations backed by the full faith and credit of the United States, \$12,157,729 in mortgage-backed securities guaranteed by different federal agencies and which hold an implied AAA rating due to the guaranty of payment by the respective federal agency and \$827,351 in a federal agency obligation guaranteed by the federal agency on a subordinated basis which is rated Aa2, AA- and AA- by Moody's, Standard & Poor's and Fitch, respectively, but which collateralizes the related repurchase agreement in excess of the required 105%.

Credit risk with investment of bond proceeds is managed by the limitation on investment of those proceeds in the following types of debt securities in accordance with the Authority's investment guidelines and the authorizing General Revenue Bond Resolution: Government obligations, obligations of certain federal agencies, either representing the full faith and credit of the United States of America or which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's, certain types of commercial paper, advance-refunded municipal bonds, certain general obligations of the State of West Virginia or any other state, or other forms of investments approved in writing by the applicable bond insurer, if any.

Accordingly, the credit risk with the investment of cash assets other than bond proceeds, known as "other revenues," is managed by the limitation on investment of other revenues in the following types of debt securities in accordance with the Authority's investment guidelines: direct obligations of or obligations guaranteed by the United States of America, the State of West Virginia or any other state, provided that obligations of other states meet certain requirements, obligations of certain federal agencies, certain types of indebtedness of public agencies or municipalities, corporate indebtedness meeting certain requirements or any other debt security investment permitted with bond proceeds.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Repurchase agreements are collateralized at 100% if the underlying security is cash and between 103% and 125% for other types of securities backed by the full faith and credit of the United States Government. The underlying securities of the Authority's \$15,626,056 in repurchase agreements are held by either a third-party custodian or by the Authority's trustee, in the name of the Trustee on behalf of the Authority.

The Authority's investment guidelines put certain restrictions on repurchase agreements, including the following: the Authority can only enter into repurchase agreements with financial institutions having a credit rating of at least "A/A"; collateral is limited to direct federal, federally guaranteed or federal agency obligations; collateral is required to be delivered to a third-party custodian, the Authority or the trustee; and, the financial institution must guarantee

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(4) Deposit and Investment Risk Disclosures (Continued)

the aggregate market value of the collateral will equal or exceed the outstanding repurchase agreement by the margin specified in the respective repurchase agreement. As of June 30, 2008, \$174,247 of the Authority's \$35,402,168 investments was undercollateralized. Subsequent to June 30, 2008, additional collateral was secured for that investment and that investment is now fully collateralized.

Foreign Currency Risk

The Authority has no securities that are subject to foreign currency risk.

Cash consisted of the following at June 30, 2008:

Cash on deposit with State Treasurer	\$ 75,691
Cash on deposit with Trustee	<u>86,384</u>
	<u>\$ 162,075</u>

A reconciliation of the amounts disclosed as cash and investments included in this Note to cash and cash equivalents, restricted cash and cash equivalents, and investments in the Statement of Net Assets as of June 30, 2008, is as follows:

**Deposits:**

Cash and cash equivalents as reported on the Statement of Net Assets	\$ 16,721,645
Add: restricted cash and cash equivalents as reported	2,016,542
Less: cash equivalents and restricted cash equivalents disclosed as investments	<u>(18,576,112)</u>
Total cash as disclosed in this Note	<u>\$ 162,075</u>

**Investments:**

Investments as reported on the Statement of Net Assets	\$ 1,200,000
Add: restricted investments as reported	15,626,056
Add: cash equivalents and restricted cash equivalents disclosed as investments	<u>18,576,112</u>
Total investments as disclosed in this Note	<u>\$ 35,402,168</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(5) Due From Other Agencies

Certain agencies of the State were indebted to the Authority at June 30, 2008, in connection with expenses paid by the Authority on behalf of the agencies. Amounts due from other agencies at June 30, 2008, were as follows:

West Virginia Infrastructure and Jobs Development Council	\$ 103,916
Department of Environmental Protection Clean Water State Revolving Fund	19,047
Bureau for Public Health Drinking Water Treatment Revolving Fund	6,038
	\$ 129,001

(6) Allowance For Uncollectible Loans and Service Charges

Initiation of the Authority's Revolving Loan Fund program in 1974 was intended to complement a federal grant program under the United States Environmental Protection Agency, which began in 1972.

Step I (planning) and Step II (design) projects were funded by 75-percent federal grants and 25-percent Authority loans. These loans are no longer made. Step III (project construction) was funded with 75-percent federal grants and the remainder with Authority grants, other State and local grants, and local funds or note issues. Authority loans for Step I and Step II projects are eligible for repayment from construction financing.

It was anticipated that all projects initiated under this program would proceed through Steps I, II and III, thus completing the cycle and resulting in repayment of Authority loans. A federal policy change ended the United States Environmental Protection Agency grant program, which increased the probability of uncollectible amounts.

The Authority established guidelines to set up an allowance for estimated uncollectible amounts to be applied to loans receivable in the Revolving Loan Fund program as of June 30, 1981, and thereafter. The establishment of the allowance for financial reporting purposes does not affect the loan agreements that exist between the Authority and the various entities. The Revolving Loan Fund program balance at June 30, 2008, is comprised of the following:

Loans receivable	\$ 388,584
Service charges receivable	3,751
Allowance for uncollectible	(392,335)
	\$ -

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(7) Revenue Bonds Receivable and Supplemental Revenue Bonds Receivable

As of June 30, 2008, the face value of revenue bonds of municipalities, public service districts and other political subdivisions purchased with proceeds from Water Development Revenue Bonds was \$235,814,577. Management's intentions are to hold such bonds until maturity; therefore, management believes the face amount of the bonds is fully collectible.

Although not required, the Authority purchased supplemental bonds of municipalities and public service districts using other available funds.

(8) Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Furniture and equipment	\$ 200,271	\$ 34,963	\$ (1,624)	\$ 233,610
Building	963,493	-	-	963,493
Building improvements	18,927	-	-	18,927
Intangible assets (software)	-	26,529	-	26,529
Total at historical cost	<u>1,182,691</u>	<u>61,492</u>	<u>(1,624)</u>	<u>1,242,559</u>
Less accumulated depreciation for:				
Furniture and equipment	(182,143)	(10,037)	1,624	(190,556)
Building	(238,863)	(24,088)	-	(262,951)
Building improvements	(18,927)	-	-	(18,927)
Total accumulated depreciation	<u>(439,933)</u>	<u>(34,125)</u>	<u>1,624</u>	<u>(472,434)</u>
Less accumulated amortization for:				
Intangible assets (software)	-	(5,306)	-	(5,306)
Total accumulated amortization	<u>-</u>	<u>(5,306)</u>	<u>-</u>	<u>(5,306)</u>
Capital assets, net	<u>\$ 742,758</u>	<u>\$ 22,061</u>	<u>\$ -</u>	<u>\$ 764,819</u>

Depreciation expense and amortization expense on capital assets for the year ended June 30, 2008, was \$34,125 and \$5,306, respectively.

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(9) Revenue Bonds Payable

The following is a summary of the Authority's bond transactions for the year ended June 30, 2008:

Revenue bonds payable at June 30, 2007	\$ 261,045,000
Bonds issued	-
Bonds retired	<u>(6,330,000)</u>
Revenue bonds payable at June 30, 2008	<u>\$ 254,715,000</u>

Revenue and refunding bonds outstanding at June 30, 2008, were as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Interest Rates %</u>	<u>Balance</u>
2000 AIII	07/01/39	5.400-6.375	\$ 18,495,000
2000 BIII	07/01/40	4.900-5.875	10,305,000
2002 AI	11/01/25	3.850-5.125	6,700,000
2003 AII	11/01/23	2.400-4.400	8,455,000
2003 AI	11/01/26	2.750-5.250	21,955,000
2003 BII	11/01/29	2.750-5.250	50,160,000
2003 CII	11/01/33	2.750-5.000	16,570,000
2003 DII	11/01/24	2.750-4.850	4,835,000
2005 AIV	11/01/44	3.250-5.000	36,905,000
2005 AII	11/01/33	3.500-5.000	17,315,000
2005 BII	11/01/33	3.500-5.000	11,830,000
2005 BIV	11/01/44	3.750-5.125	11,755,000
2006 AII	11/01/39	3.750-5.000	<u>39,435,000</u>
			<u>\$ 254,715,000</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(9) Revenue Bonds Payable (Continued)

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B Water Development Revenue Bonds.

Total future maturities of bond principal and interest on Authority indebtedness at June 30, 2008, are as follows:

**Loan Program I**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/08	\$ 1,220,000	\$ 1,273,620	\$ 2,493,620
11/01/09	1,265,000	1,233,728	2,498,728
11/01/10	1,305,000	1,188,577	2,493,577
11/01/11	1,355,000	1,137,921	2,492,921
11/01/12	<u>1,385,000</u>	<u>1,084,009</u>	<u>2,469,009</u>
	<u>6,530,000</u>	<u>5,917,855</u>	<u>12,447,855</u>
11/01/13 - 11/01/17	7,670,000	4,504,711	12,174,711
11/01/18 - 11/01/22	7,560,000	2,717,797	10,277,797
11/01/23 - 11/01/26	<u>6,895,000</u>	<u>697,181</u>	<u>7,592,181</u>
	<u>22,125,000</u>	<u>7,919,689</u>	<u>30,044,689</u>
	<u>\$ 28,655,000</u>	<u>\$ 13,837,544</u>	<u>\$ 42,492,544</u>

**Loan Program II**

11/01/08	\$ 4,060,000	\$ 6,827,291	\$ 10,887,291
11/01/09	4,185,000	6,695,739	10,880,739
11/01/10	4,320,000	6,551,319	10,871,319
11/01/11	4,475,000	6,378,587	10,853,587
11/01/12	<u>4,660,000</u>	<u>6,178,394</u>	<u>10,838,394</u>
	<u>21,700,000</u>	<u>32,631,330</u>	<u>54,331,330</u>
11/01/13 - 11/01/17	25,980,000	27,469,777	53,449,777
11/01/18 - 11/01/22	28,840,000	21,027,059	49,867,059
11/01/23 - 11/01/27	31,880,000	13,771,648	45,651,648
11/01/28 - 11/01/32	25,785,000	6,313,800	32,098,800
11/01/33 - 11/01/37	10,850,000	2,081,000	12,931,000
11/01/38 - 11/01/39	<u>3,565,000</u>	<u>169,125</u>	<u>3,734,125</u>
	<u>126,900,000</u>	<u>70,832,409</u>	<u>197,732,409</u>
	<u>\$ 148,600,000</u>	<u>\$ 103,463,739</u>	<u>\$ 252,063,739</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(9) Revenue Bonds Payable (Continued)

**Loan Program III**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
07/01/08	\$ 740,000	\$ 1,705,020	\$ 2,445,020
07/01/09	785,000	1,664,053	2,449,053
07/01/10	820,000	1,620,207	2,440,207
07/01/11	355,000	1,587,663	1,942,663
07/01/12	<u>370,000</u>	<u>1,567,200</u>	<u>1,937,200</u>
	<u>3,070,000</u>	<u>8,144,143</u>	<u>11,214,143</u>
07/01/13 - 07/01/17	2,210,000	7,475,834	9,685,834
07/01/18 - 07/01/22	2,965,000	6,697,594	9,662,594
07/01/23 - 07/01/27	3,970,000	5,668,091	9,638,091
07/01/28 - 07/01/32	5,300,000	4,281,649	9,581,649
07/01/33 - 07/01/37	7,130,000	2,399,916	9,529,916
07/01/38 - 07/01/40	<u>4,155,000</u>	<u>309,950</u>	<u>4,464,950</u>
	<u>25,730,000</u>	<u>26,833,034</u>	<u>52,563,034</u>
	<u>\$ 28,800,000</u>	<u>\$ 34,977,177</u>	<u>\$ 63,777,177</u>

**Loan Program IV**

11/01/08	\$ 665,000	\$ 2,303,756	\$ 2,968,756
11/01/09	695,000	2,280,569	2,975,569
11/01/10	715,000	2,256,215	2,971,215
11/01/11	745,000	2,230,069	2,975,069
11/01/12	<u>770,000</u>	<u>2,202,319</u>	<u>2,972,319</u>
	<u>3,590,000</u>	<u>11,272,928</u>	<u>14,862,928</u>
11/01/13 - 11/01/17	4,310,000	10,528,216	14,838,216
11/01/18 - 11/01/22	5,405,000	9,390,006	14,795,006
11/01/23 - 11/01/27	6,495,000	7,953,369	14,448,369
11/01/28 - 11/01/32	7,720,000	6,249,712	13,969,712
11/01/33 - 11/01/37	8,490,000	4,167,653	12,657,653
11/01/38 - 11/01/42	8,580,000	2,134,388	10,714,388
11/01/43 - 11/01/44	<u>4,070,000</u>	<u>206,209</u>	<u>4,276,209</u>
	<u>45,070,000</u>	<u>40,629,553</u>	<u>85,699,553</u>
	<u>\$ 48,660,000</u>	<u>\$ 51,902,481</u>	<u>\$ 100,562,481</u>

Total all loan programs	\$ 254,715,000
Add: unamortized premium	3,641,297
Less: unamortized discount, bond issue costs and deferred losses on advance refundings	<u>(21,352,573)</u>
Total all programs, presented net	237,003,724
Less: current portion	<u>(5,902,575)</u>
Noncurrent portion	<u>\$ 231,101,149</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(9) Revenue Bonds Payable (Continued)

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2008, there are \$42,675,000 in defeased bonds outstanding.

(10) Pension Plan

The Authority contributes to a cost-sharing, multiple-employer defined benefit pension plan administered by the West Virginia Public Employees Retirement System ("PERS"). It provides retirement, disability and death benefits to plan members and beneficiaries. State statutes establish benefit provisions. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information of PERS. That report may be obtained by writing to:

West Virginia Consolidated Public Retirement Board  
4101 MacCorkle Avenue, S.E.  
Charleston, West Virginia 25304

The Authority and plan members are required to contribute 10.5% and 4.5%, respectively, of annual covered salaries. The contribution requirements of the Authority and plan members are established and may be amended by State statute. The Authority's contributions to PERS for the years ended June 30, 2008, 2007 and 2006 for Authority employees, including employees utilized by the Infrastructure and Jobs Development Council (the "Council"), were \$45,519, \$43,999, and \$45,973, respectively. The Authority's contributions to PERS for Authority employees utilized by the Council for the years ended June 30, 2008, 2007 and 2006 were \$10,153, \$9,783 and \$10,967, respectively, which contributions were reimbursed by the Council.

(11) Other Postemployment Benefits

Plan Description

The Authority participates in the West Virginia Other Postemployment Benefits ("OPEB") Plan of the West Virginia Retiree Health Benefit Trust Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency ("WVPEIA"). The OPEB Plan provides retiree postemployment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended, assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by calling 1-888-680-7342 or by writing to:

Public Employees Insurance Agency  
State Capitol Complex, Building 5, Room 1001  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0710

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(11) Other Postemployment Benefits (Continued)

Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (“ARC”) an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The Authority’s contributions to the OPEB Plan for the year ended June 30, 2008, were \$18,114 and the billed ARC was \$29,046. During the year ended June 30, 2008, the Authority received on-behalf payments from the WVPEIA in the amount of \$7,597. These amounts were transferred to the OPEB Plan which resulted in a net ARC liability of \$3,335, which is included in the Authority’s liabilities as of June 30, 2008.

(12) General and Administrative Expenses

General and administrative expenses for the year ended June 30, 2008, are as follows:

Personal services	\$ 263,408
Legal	81,240
Professional	48,866
Trustee	44,338
Public employees retirement	35,366
Other postemployment benefits	29,047
Public employees insurance	19,288
Office supplies/printing	14,488
Building	12,964
Travel	10,812
Utilities	9,810
Telecommunications	9,053
Advertising	8,834
Payroll taxes	7,206
Computer supplies	5,110
Janitorial	4,997
Miscellaneous	4,371
Rental	4,345
Administrative	2,550
Insurance	2,086
Training and development	<u>1,610</u>
	<u>\$ 619,789</u>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

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(13) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Authority has obtained coverage for job-related injuries of employees and health coverage for its employees through Brickstreet Mutual Insurance Company (“Brickstreet”) and the WVPEIA. In exchange for the payment of premiums to Brickstreet and WVPEIA, the Authority has transferred its risk related to job-related injuries and health coverage for employees.

The Authority participates in the West Virginia Board of Risk and Insurance Management to obtain coverage for general liability, property damage, business interruption, errors and omissions, and natural disasters. Coverage is offered in exchange for an annual premium.

(14) Subsequent Event

Between August 20, 2008 and August 28, 2008, the custodian of the collateral securing one of the Authority’s repurchase agreements allowed part of the collateral consisting of the proceeds of called United States Treasury Bonds (“Treasuries”) of \$1,325,000 and accrued interest on those bonds of \$79,500 to be withdrawn by the investment provider. The security provided by the investment provider to replace the Treasuries consisted of a Federal Home Loan Mortgage Real Estate Mortgage Investment Conduit which is backed by the full faith and credit of the United States but is not an eligible security in accordance with the investment contract. Additionally, even though the market value of the remaining collateral exceeds the face amount of the investment, or purchase price, the collateral value does not meet the 125% margin required by the terms of the investment contract.

(15) Segment Information

The presentation of segment information for the Authority, which follows, conforms with the requirements of GASB Statement No. 37, “Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments: Omnibus.”

Loan Program I includes Series 2002 A and 2003 A Water Development Revenue Refunding Bonds. Loan Program II includes Series 2003 A Water Development Revenue Bonds and Series 2003 B, 2003 C, 2003 D, 2005 A, 2005 B and 2006 A Water Development Revenue Refunding Bonds. Loan Program III includes Series 2000 A and 2000 B Water Development Revenue Bonds. Loan Program IV includes Series 2005 A and 2005 B Water Development Revenue Bonds.

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

(15) Segment Information (Continued)

	<u>Loan Program I</u>	<u>Loan Program II</u>	<u>Loan Program III</u>
<b>Assets:</b>			
Current	\$ 1,348,912	\$ 4,901,714	\$ 884,698
Noncurrent - other	-	-	-
Restricted	27,258,206	141,536,152	30,305,359
Capital	-	-	-
<b>Total assets</b>	<b>28,607,118</b>	<b>146,437,866</b>	<b>31,190,057</b>
<b>Liabilities:</b>			
Current	1,154,324	4,739,653	1,563,578
Long-term	22,674,685	133,481,863	26,884,795
<b>Total liabilities</b>	<b>23,829,009</b>	<b>138,221,516</b>	<b>28,448,373</b>
<b>Net assets:</b>			
Restricted	4,583,521	8,054,289	3,420,564
Unrestricted	194,588	162,061	(678,880)
Invested in capital assets	-	-	-
<b>Total net assets</b>	<b>\$ 4,778,109</b>	<b>\$ 8,216,350</b>	<b>\$ 2,741,684</b>
<b>Operating revenues:</b>			
Charges for services	\$ 2,152,951	\$ 9,128,530	\$ 1,792,046
Recovery of uncollectible loans and service charges	-	-	-
<b>Operating expenses:</b>			
Depreciation	-	-	-
Amortization	27,567	94,619	38,779
General and administrative	-	(12)	-
Allocation of general and administrative	67,340	319,198	70,152
<b>Operating income</b>	<b>2,058,044</b>	<b>8,714,725</b>	<b>1,683,115</b>
<b>Nonoperating revenues (expenses):</b>			
Interest and investment revenue, net of arbitrage	226,066	690,627	167,294
Other nonoperating revenue	-	-	-
Interest expense	(1,557,702)	(7,855,411)	(1,724,713)
<b>Transfers (net)</b>	<b>(517,452)</b>	<b>(1,099,189)</b>	<b>(125,685)</b>
<b>Change in net assets</b>	<b>208,956</b>	<b>450,752</b>	<b>11</b>
Beginning net assets, as previously reported	4,569,153	7,765,598	2,741,673
Cumulative effect on prior years of a change in accounting principle	-	-	-
<b>Adjusted balance, beginning net assets</b>	<b>4,569,153</b>	<b>7,765,598</b>	<b>2,741,673</b>
<b>Ending net assets</b>	<b>\$ 4,778,109</b>	<b>\$ 8,216,350</b>	<b>\$ 2,741,684</b>
 Net cash provided (used) by:			
Operating activities	\$ 2,314,340	\$ 10,107,133	\$ 2,293,777
Capital and related financing activities	-	-	-
Noncapital financing activities	(2,500,007)	(10,885,264)	(2,448,343)
Investing activities	185,516	725,703	192,002
Beginning cash and cash equivalents	59,438	315,356	1,656,773
<b>Ending cash and cash equivalents</b>	<b>\$ 59,287</b>	<b>\$ 262,928</b>	<b>\$ 1,694,209</b>

# West Virginia Water Development Authority

## Notes to Financial Statements (Continued)

(15) Segment Information (Continued)

	<u>Loan Program IV</u>	<u>Supplemental</u>	<u>Total</u>
<b>Assets:</b>			
Current	\$ 1,213,133	\$ 18,517,228	\$ 26,865,685
Noncurrent - other	-	9,875,459	9,875,459
Restricted	48,334,085	9,973,308	257,407,110
Capital	-	764,819	764,819
<b>Total assets</b>	<b>49,547,218</b>	<b>39,130,814</b>	<b>294,913,073</b>
<b>Liabilities:</b>			
Current	1,057,091	22,555	8,537,201
Long-term	48,215,589	33,290	231,290,222
<b>Total liabilities</b>	<b>49,272,680</b>	<b>55,845</b>	<b>239,827,423</b>
<b>Net assets:</b>			
Restricted	118,496	9,973,308	26,150,178
Unrestricted	156,042	28,336,842	28,170,653
Invested in capital assets	-	764,819	764,819
<b>Total net assets</b>	<b>\$ 274,538</b>	<b>\$ 39,074,969</b>	<b>\$ 55,085,650</b>
<b>Operating revenues:</b>			
Charges for services	\$ 2,504,169	\$ 266,077	\$ 15,843,773
Recovery of uncollectible loans and service charges	-	37,875	37,875
<b>Operating expenses:</b>			
Depreciation	-	34,125	34,125
Amortization	24,721	5,306	190,992
General and administrative	-	619,801	619,789
Allocation of general and administrative	116,057	(572,747)	-
<b>Operating income</b>	<b>2,363,391</b>	<b>217,467</b>	<b>15,036,742</b>
<b>Nonoperating revenues (expenses):</b>			
Interest and investment revenue, net of arbitrage	9,708	764,353	1,858,048
Other nonoperating revenue	-	7,597	7,597
Interest expense	(2,289,260)	-	(13,427,086)
<b>Transfers (net)</b>	<b>12,488</b>	<b>1,729,838</b>	<b>-</b>
<b>Change in net assets</b>	<b>96,327</b>	<b>2,719,255</b>	<b>3,475,301</b>
Beginning net assets, as previously reported	178,211	36,102,032	51,356,667
Cumulative effect on prior years of a change in accounting principle	-	253,682	253,682
<b>Adjusted balance, beginning net assets</b>	<b>178,211</b>	<b>36,355,714</b>	<b>51,610,349</b>
<b>Ending net assets</b>	<b>\$ 274,538</b>	<b>\$ 39,074,969</b>	<b>\$ 55,085,650</b>
<b>Net cash provided (used) by:</b>			
Operating activities	\$ 2,811,869	\$ 849,084	\$ 18,376,203
Capital and related financing activities	-	(61,492)	(61,492)
Noncapital financing activities	(2,822,793)	7,597	(18,648,810)
Investing activities	9,713	793,133	1,906,067
Beginning cash and cash equivalents	1,330	15,133,322	17,166,219
<b>Ending cash and cash equivalents</b>	<b>\$ 119</b>	<b>\$ 16,721,644</b>	<b>\$ 18,738,187</b>

Audited Agency West Virginia Water Development Authority

Per GASB Statement 40 the Institution must disclose its deposit policy. The deposit policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the Institution's deposit policy.

Please see footnote (4) to the audited financial statements.

	Carrying Amount	Restricted Carrying Amount	Total Carrying Amount	Bank Balance	Insured Amount	Collateralized Amount	Amount collateralized with securities held by the pledging financial institution's trust department or agent in the name of the depositor	2	3A	3B	3C	Foreign Currency Risk	
												Amount	Fair Value
Cash with Treasurer	75,691		75,691										
Per WVIMS Opening Balance Report		86,394	86,394						86,394				
Restricted cash with trustee		86,394	86,394						86,394				
Total	75,691	86,394	162,075	0	0	0	0	0	86,394	0	0	0	0

PLEASE SEND COMPLETED FORMS TO:  
 State of West Virginia  
 Financial Accounting and Reporting Section  
 2101 Washington Street East  
 Charleston, WV 25305  
 Telephone Number (304) 558-4083  
 Fax Number (304) 558-4084

Audited Agency West Virginia Water Development Authority

Per GASB Statement 40 the institution must disclose its investment policy. The investment policy must be formally adopted through legal or contractual provisions. Disclosure of any statutory policies are also required. Please provide in the space below the institution's investment policy  
Please see footnote (4) to the audited financial statements.

	Reported Amount		Custodial Credit Risk			Reported Amount**	Fair Value	Credit Ratings		Interest Rate Risk - Segmented Time Distributor			Foreign Currency Risk			
	Unrestricted	Reported Restricted	Category 1 (Based on reported amounts)	Category 2 (Based on reported amounts)	Category 3 Not Subject to Categorization			Standard & Poor's	Moody's	Fitch	Less than 1	1 - 5	6 -10	More than 10	Currency Type	Maturity
Investments Outside IMB:																
U.S. Treasury Obligations	1,200,000		1,200,000			1,200,000 (F)	1,200,000					1,200,000				
Mutual Money Market Funds	16,638,385	1,937,727			18,576,112	18,576,112 (F)	18,576,112	AAA	Aaa	AAA						
Repurchase Agreements ***		15,628,056	3,183,016	12,445,038		15,628,056 (F)	15,628,056	See below for ratings of underlying collateral			9,743,994	3,436,520	2,445,542			
Total	17,638,385	17,565,783	4,383,016	12,445,038	0	35,402,168	35,402,168				18,576,112	3,436,520	3,645,542			0

\*\*\* MUST COMPLETE THE BELOW INFORMATION IF REPURCHASE AGREEMENTS WERE IDENTIFIED ABOVE:

Collateral Description on the Repurchase Agreements	Fair Market Value of Collateral	Standard & Poor's	Moody's	Fitch
US Treasury Bonds	3,980,022	N/A	N/A	N/A
Government National Mortgage Association	2,635	N/A	N/A	N/A
Federal Home Loan Mortgage REMIC	1,234,194	N/A	N/A	N/A
Federal Home Loan Mortgage	159,666	(1)	(1)	(1)
US Veterans Affairs Gtd REMIC	4,696,724	(1)	(1)	(1)
Federal National Mortgage Association	4,708,203	(1)	(1)	(1)
Fannie Mae Strip	2,593,137	(1)	(1)	(1)
Fannie Mae Subordinated Note	827,351	AA-	Aa2	AA-

(1) These are mortgage-backed securities guaranteed by different federal agencies and which hold an implied AAA rating due to the guaranty of payment by the respective federal agency.

GAAP REPORTING FORM - DEPOSITS AND INVESTMENTS RECONCILIATION

Audited Agency West Virginia Water Development Authority

Reconciliation of cash, cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnote:

Deposits:

Cash and cash equivalents as reported on balance sheet	\$ 18,738,187
Less: cash equivalents disclosed as investments	(18,576,112)
Carrying amount of deposits as disclosed on Form 7	<u>\$ 162,075</u>

Investments:

Investments as reported on balance sheet	\$ 1,200,000
Add: restricted assets disclosed as investments	15,626,056
Add: cash equivalents disclosed as investments	<u>18,576,112</u>
Reported amount of investments as disclosed on Form 8	<u>\$ 35,402,168</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
West Virginia Water Development Authority  
Charleston, West Virginia

We have audited the financial statements of the West Virginia Water Development Authority (the Authority) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

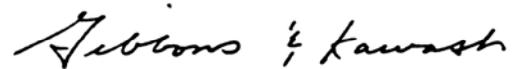
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 13, 2008.

This report is intended solely for the information of the Authority's board, audit committee, management, and the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Gibson & Kawash". The signature is written in a cursive, flowing style.

October 13, 2008